

October 5, 2001

Monthly Mutual Fund Report

Statistics for August 2001

Sales and Redemptions

Total assets for all funds decreased in August by \$156.7 billion, or 2.3 percent, to \$6.9 trillion. Money market funds had a net cash inflow of \$26.9 billion compared to an inflow in July of \$12.0 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of \$10.6 billion, compared to \$9.4 billion in July. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were \$106.2 billion in August, up from \$100.8 billion in July. The value of non-money market assets depreciated by \$203.1 billion in August, following a depreciation of \$76.5 billion in July.

Total assets of **equity funds** decreased by \$205.1 billion, or 5.7 percent, to \$3.39 trillion. There was a net cash outflow from equity funds of \$5.2 billion compared with an outflow of \$1.2 billion in July. The market value of assets depreciated by \$200.6 billion. Year-to-date cash flows are \$42.8 billion. During the same period in 2000, cash flows were \$255.9 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 2.7 percent, or \$9.4 billion, to \$343 billion. In August, there was a \$0.7 billion net cash outflow for these funds. Year-to-date, their net cash inflows have been \$6.3 billion compared to an outflow of \$26.5 billion during the same period in 2000.

Bond funds experienced a cash inflow of \$16.6 billion, while their total assets rose by \$25.6 billion, to \$908.3 billion. The market value of bond funds assets increased by \$6.3 billion, after adjusting for net sales and reinvested dividends. The assets of tax-exempt funds increased by 2.5 percent while the assets of taxable bond funds increased by 3.1 percent.

Assets of taxable and tax-exempt **money market funds** increased \$32.1 billion, to \$2.1 trillion, an increase of 1.8 percent for taxable money market funds and an increase of 0.0 percent for tax-exempt funds.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased from 3.3 to 4.5 percent, while the ratio for equity funds decreased from 5.6 to 5.4 percent (figure 4).



Weekly Flows

In September, there were outflows from equity funds of 0.9 percent of total assets with losses of 5.4 percent. Bond funds had outflows of 0.1 percent and losses of 2.1 percent for the month.

Index funds had monthly inflows of 0.1 percent and losses of 7.6 percent. Aggressive growth funds had monthly outflows of 1.0 percent and losses of 7.8 percent. Small-cap funds had outflows of 1.9 percent and losses of 11.1 percent.

There were outflows from international funds in July of 0.6 percent of assets and losses of 5.7 percent. Latin America funds had outflows of 0.6 percent and losses of 8.6 percent. Japan funds had outflows of 2.7 percent and losses of 2.4 percent of assets for the month of September. Pacific funds that do not invest in Japan had inflows of 1.2 percent and losses of 1.6 percent of assets.

Capital Market Returns and Volatility

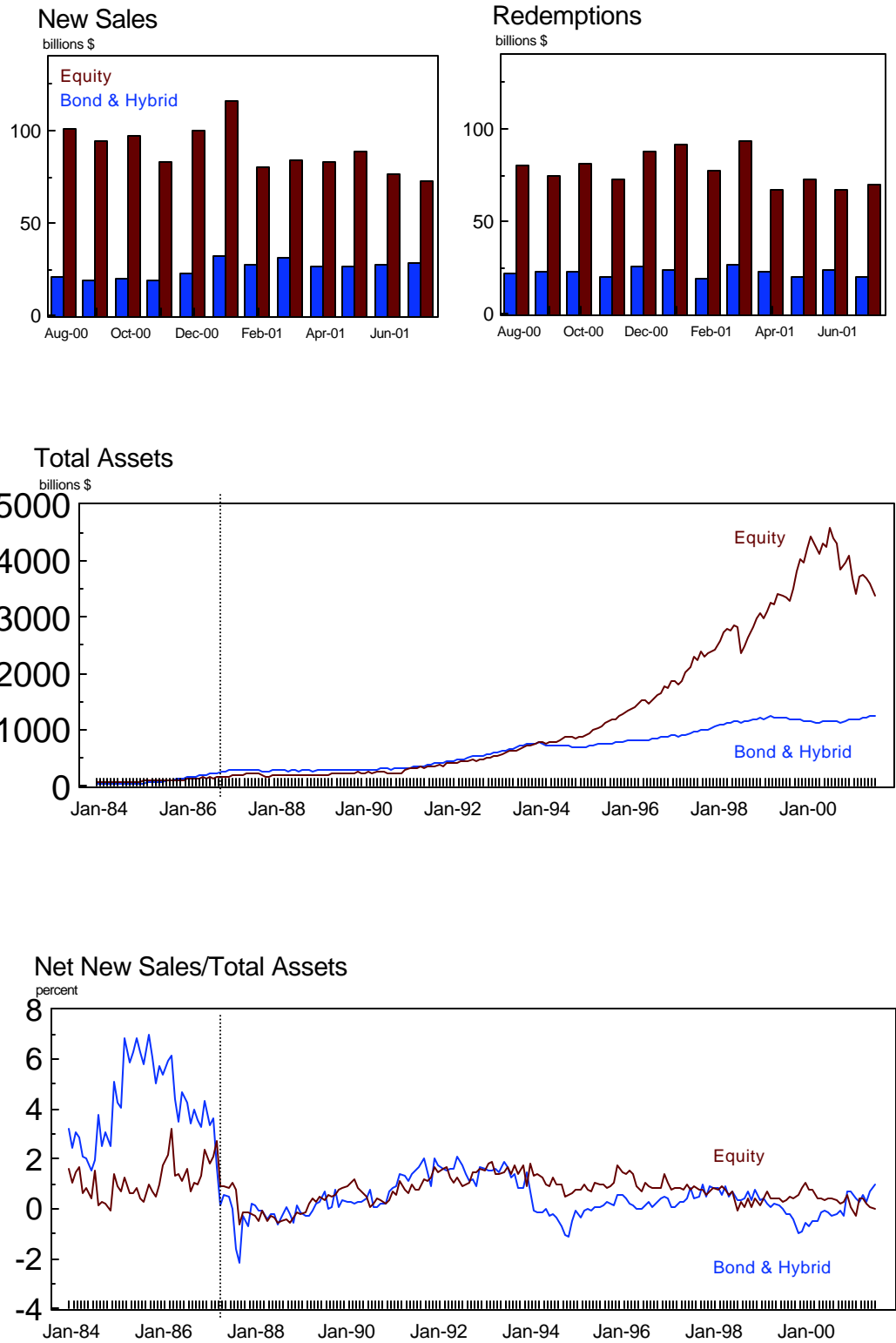
The S&P 500 ended September at 1040.94, a decrease of 8.1 percent from the beginning of the month. The 12-month return was -26.7 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 23.1 percent.

The 12-month average return on the Salomon Brothers Bond Index was 13.0 percent for September. Volatility decreased to 2.5 percent (figure 8).

Price-Earnings Ratio

The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have increased to 5.9 percent, and remain below the 6.7 percent historical average annual growth rate. The trailing price-earnings ratio increased to 25.4 for the second quarter from 24.2 in the first quarter, while the forward price-operating earnings ratio decreased from 22.8 in the second quarter to 21.4 during the third quarter. This is the first time the plotted lines representing the forward and trailing operating earnings have diverged since the 1990 recession (figure 9). During the second quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index increased to 33.2 from 21.9.

Figure 1
Sales of Mutual Funds



Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)

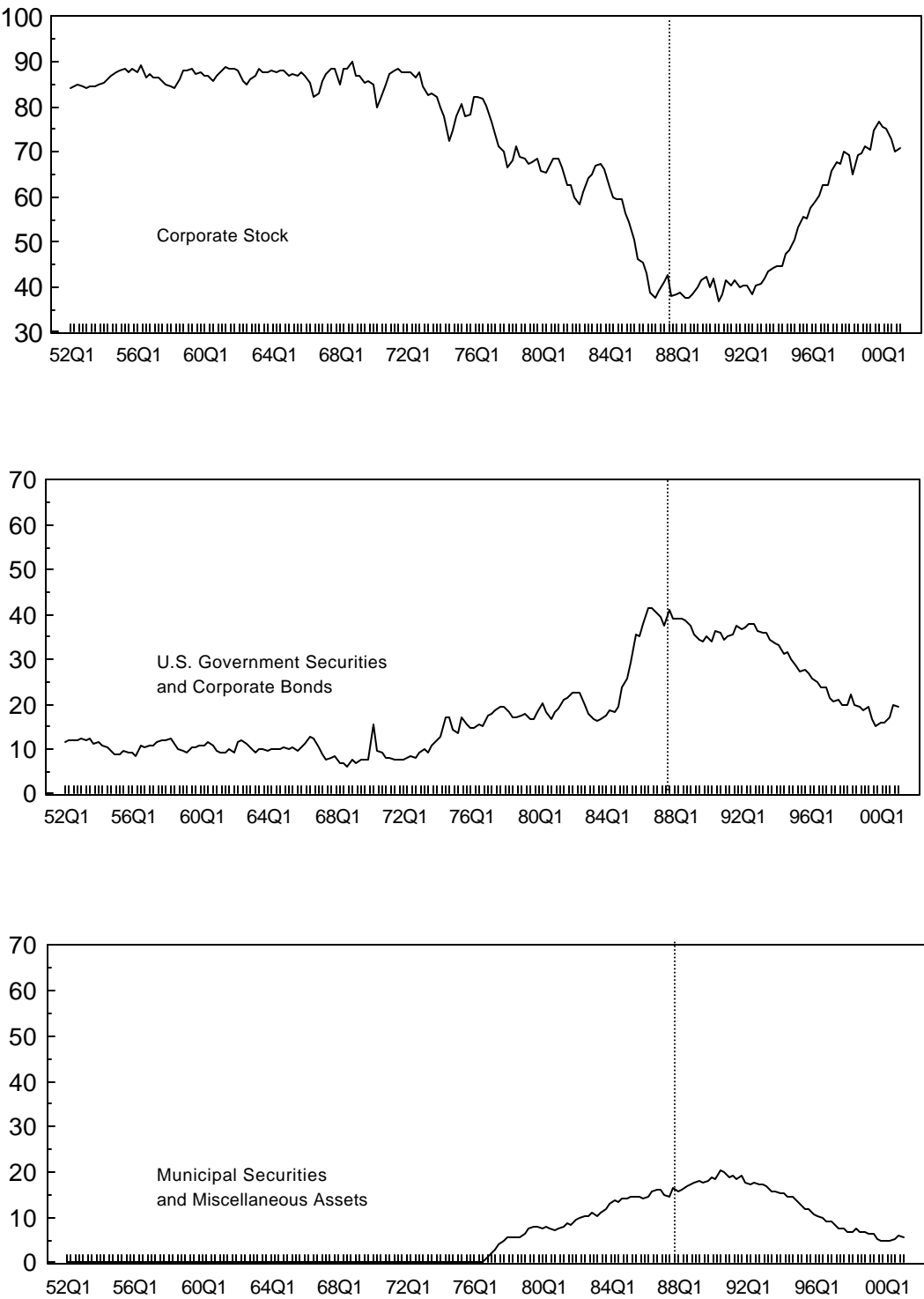


Figure 3
Net Portfolio Purchases
(percent of Total Assets)

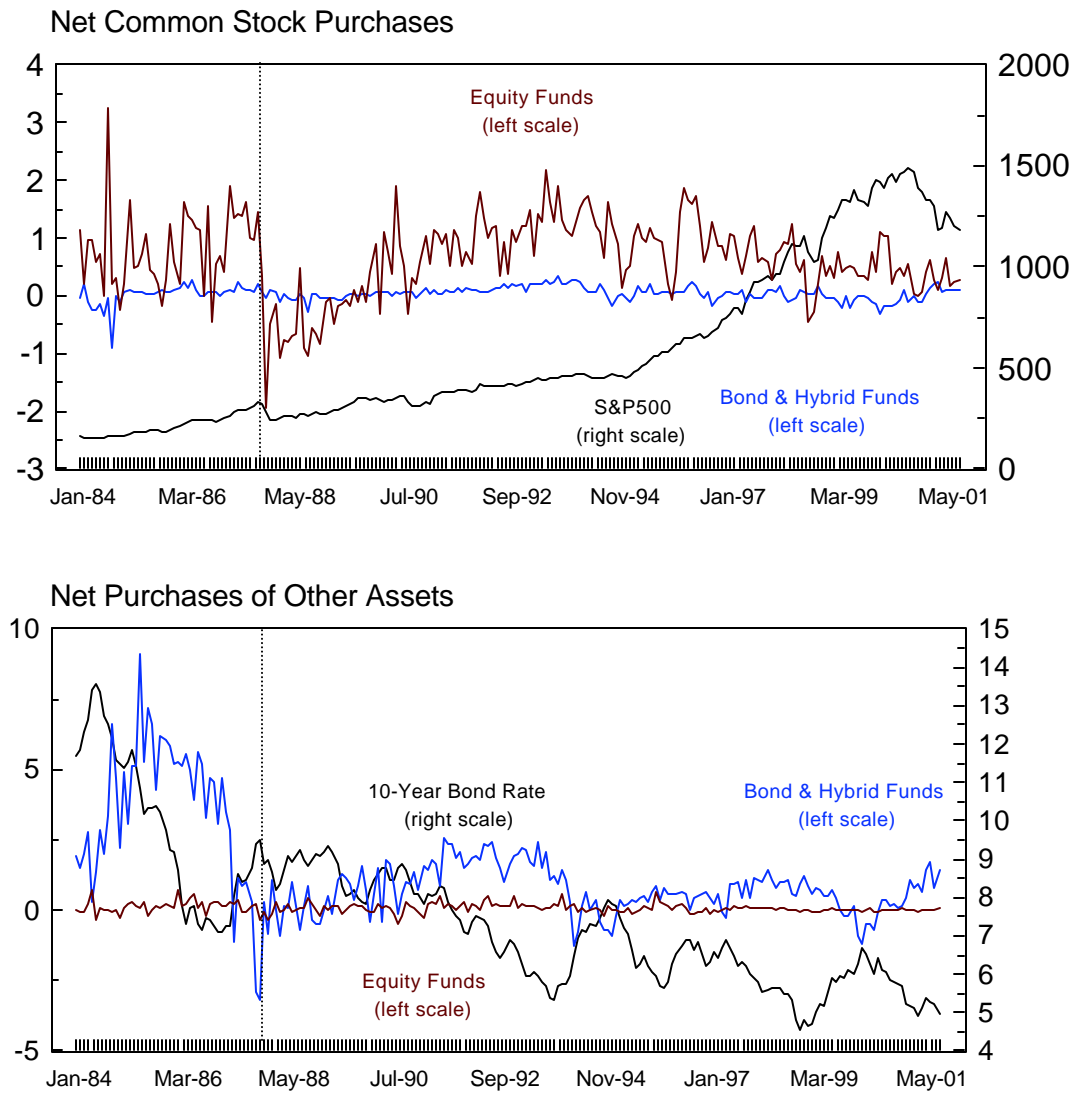
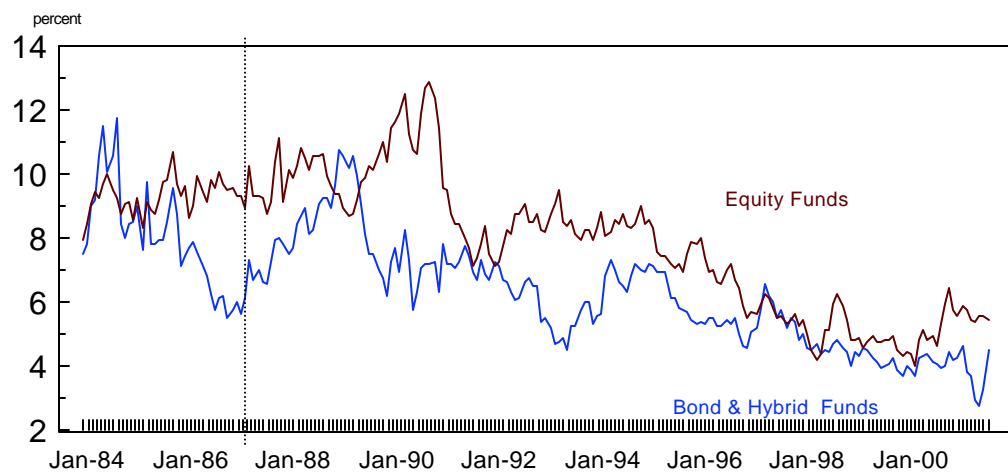
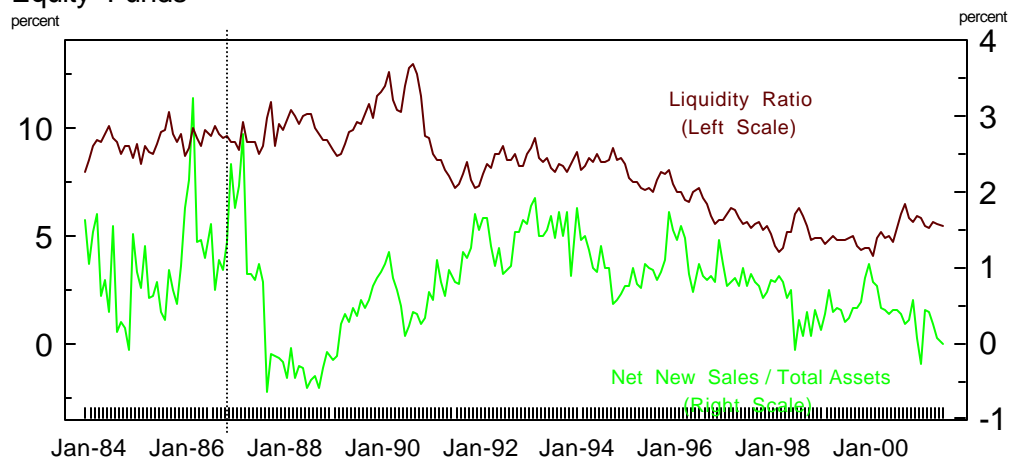


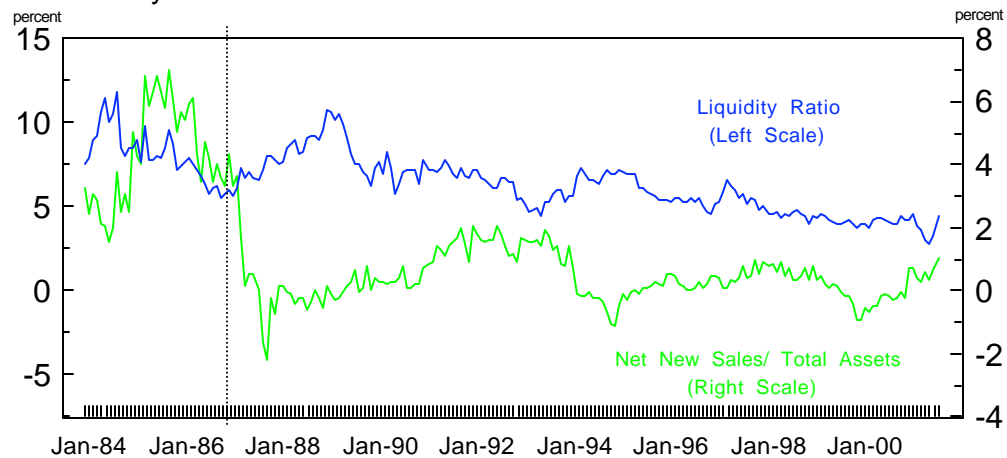
Figure 4
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



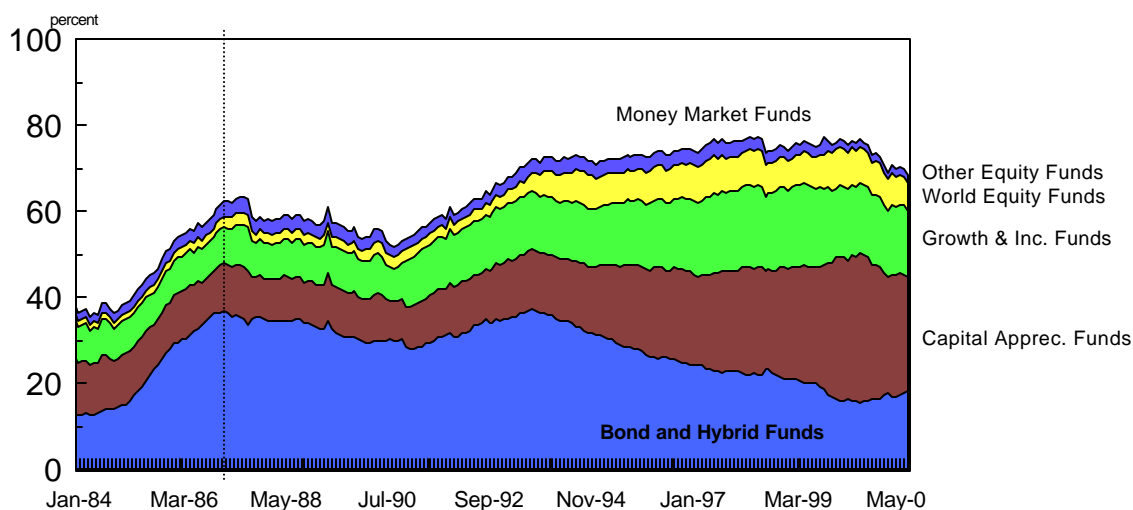
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

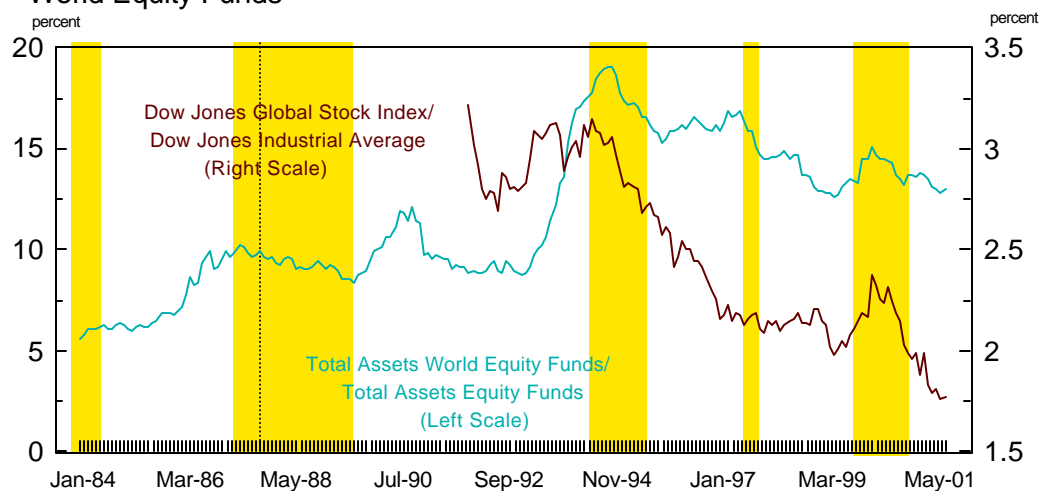
Figure 5

Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

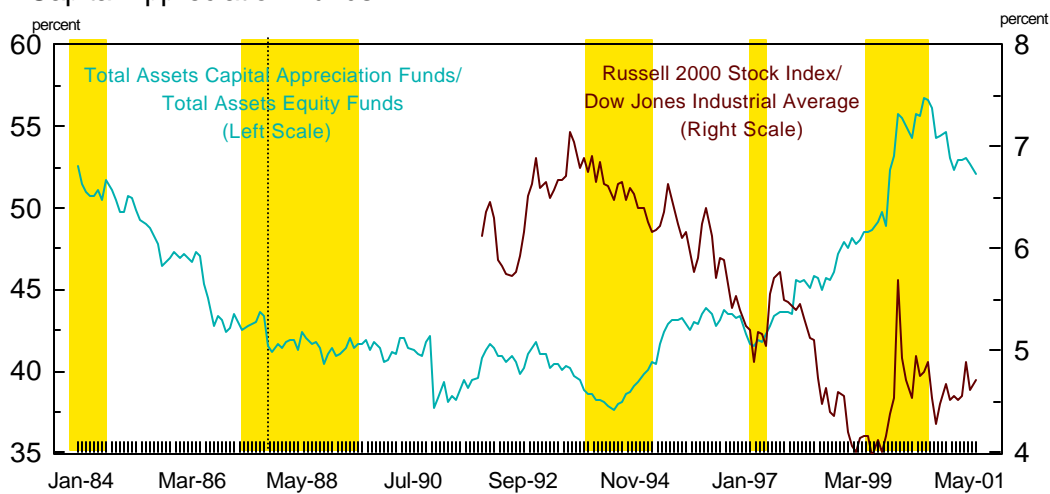
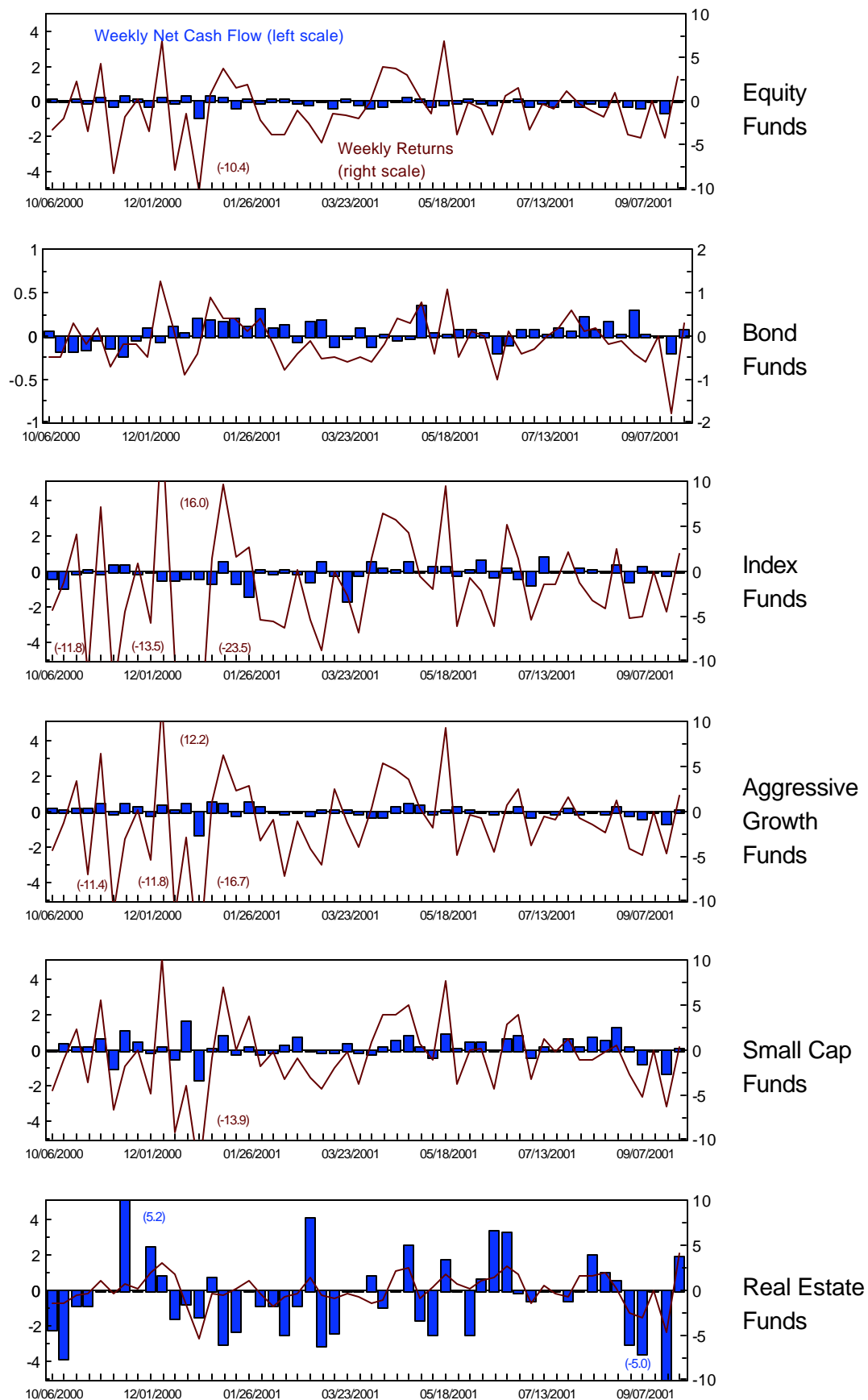
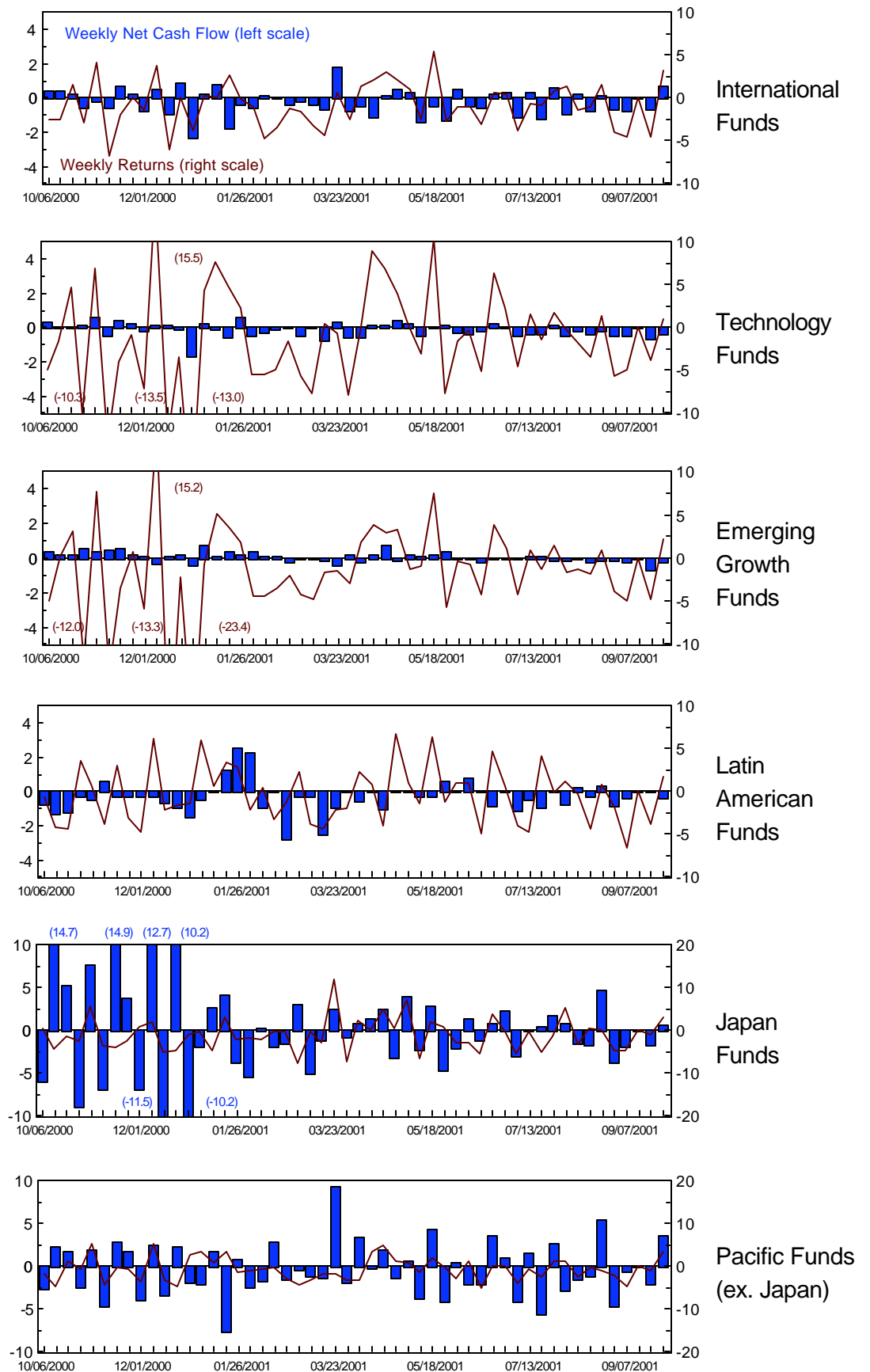


Figure 6a
Weekly Flows into Mutual Funds
 (percent of Total Assets)



Source: Mutual Fund Trim Tabs

Figure 6b
Weekly Flows into Mutual Funds
 (percent of Total Assets)



Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

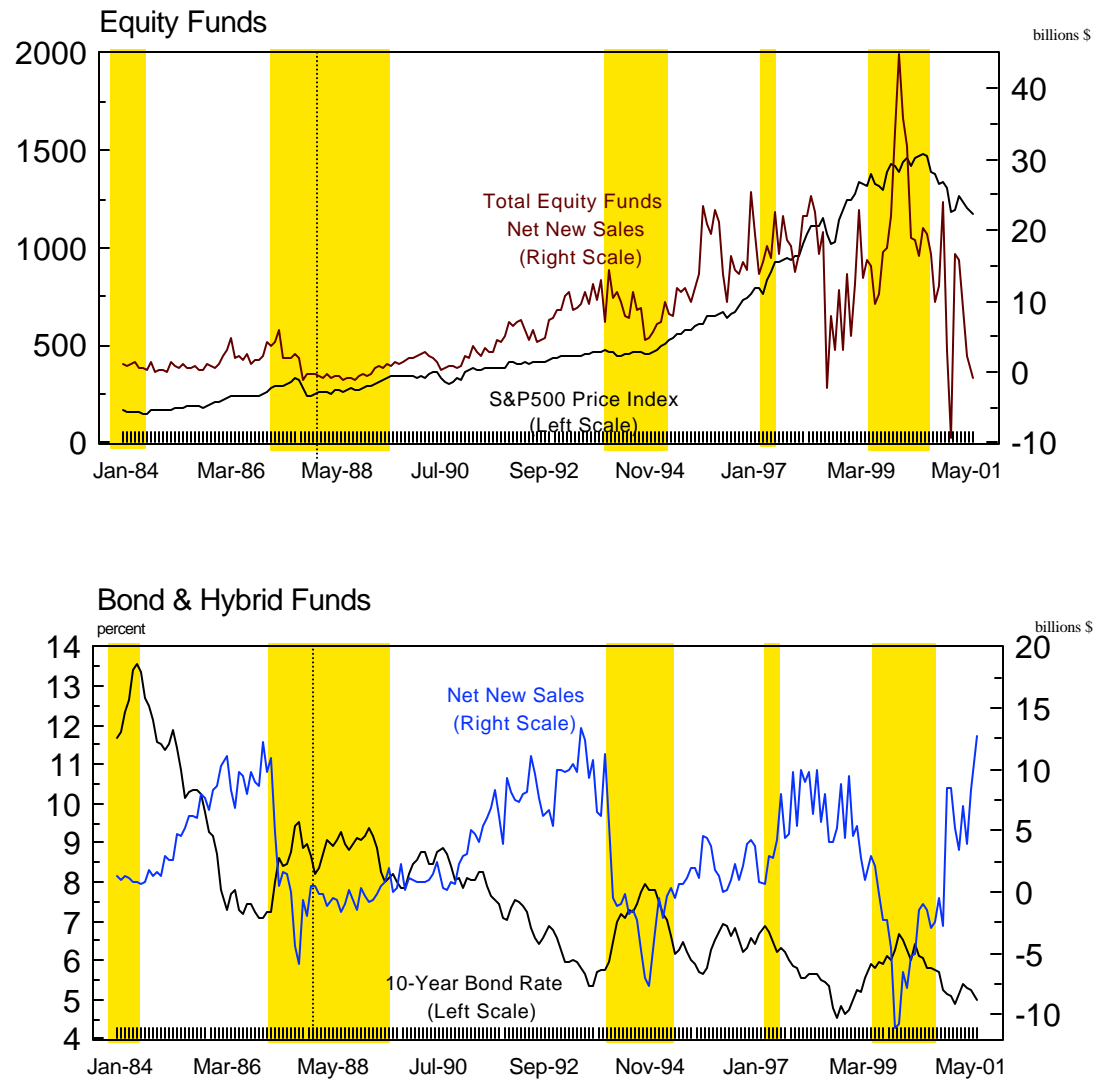


Figure 8
Capital Market Returns and Volatility

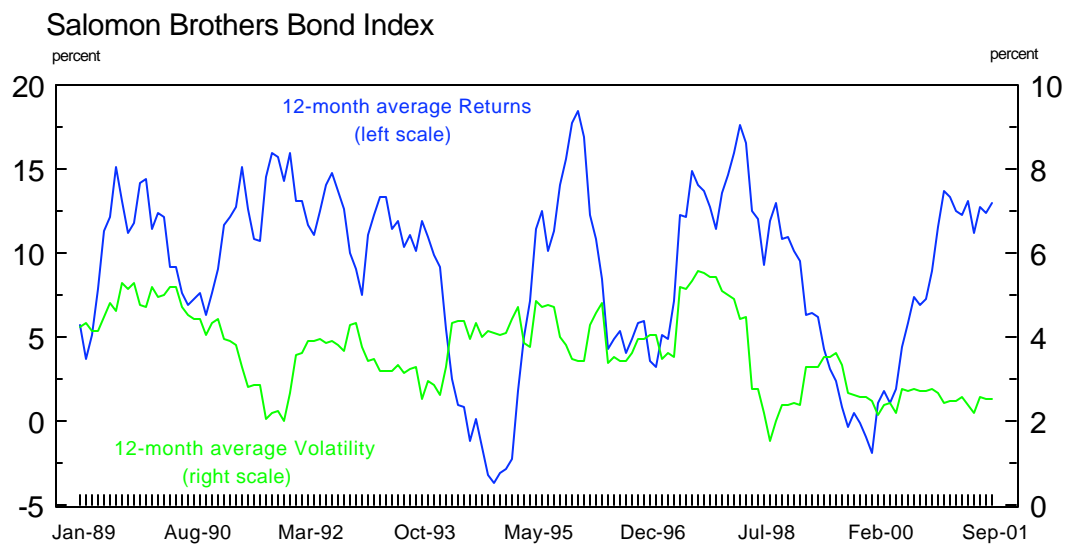
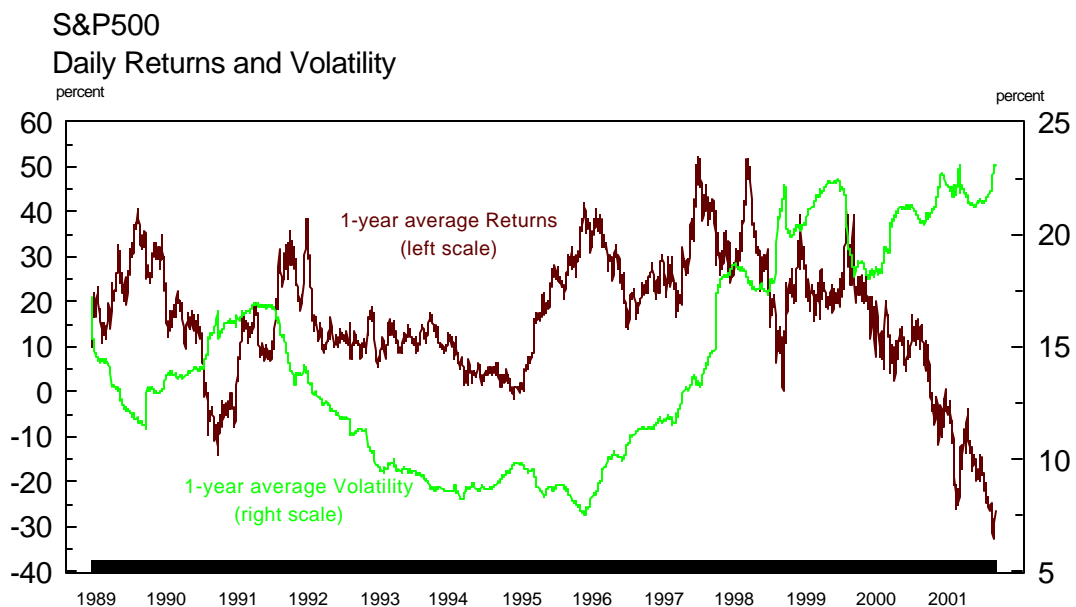
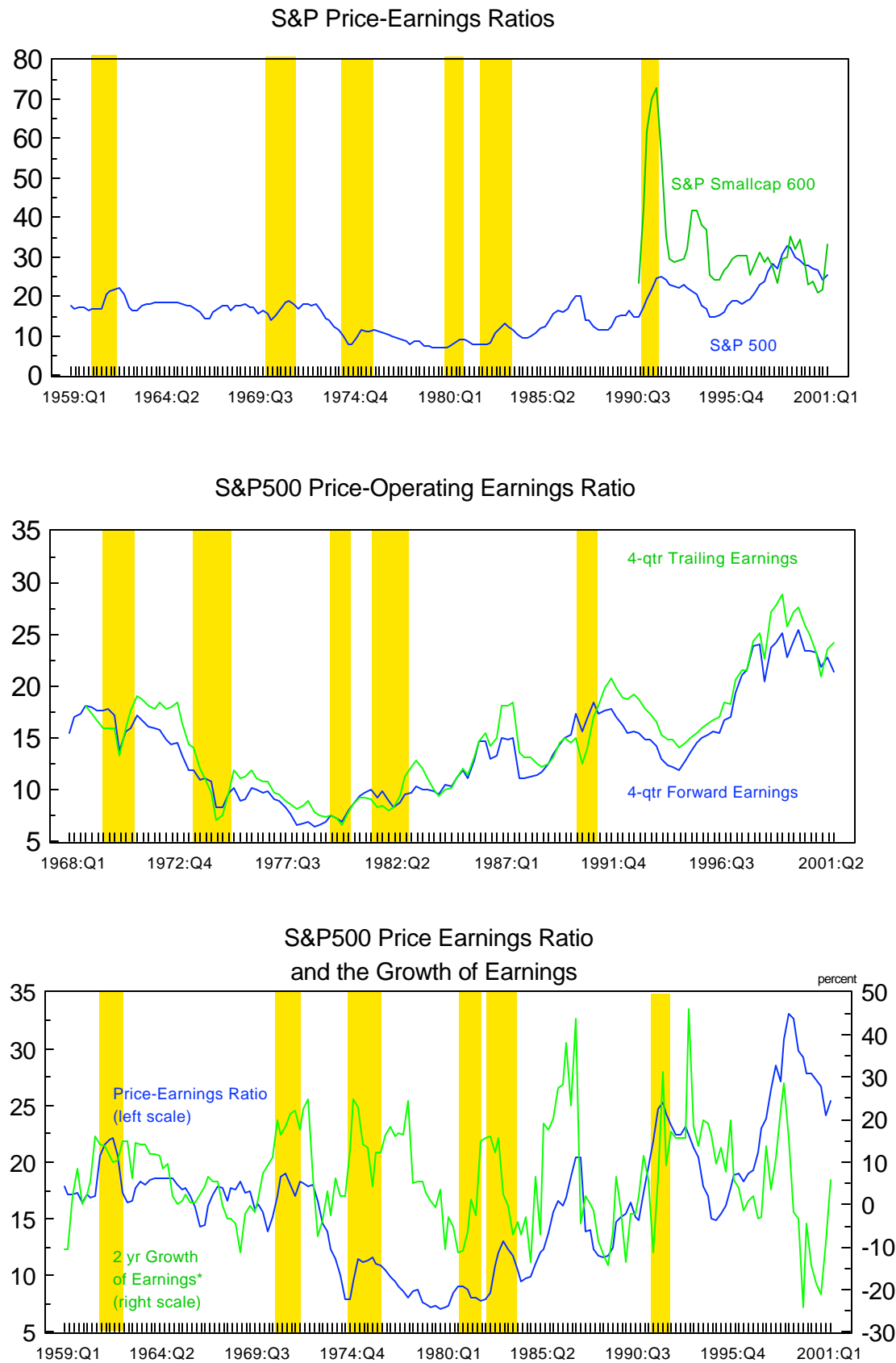


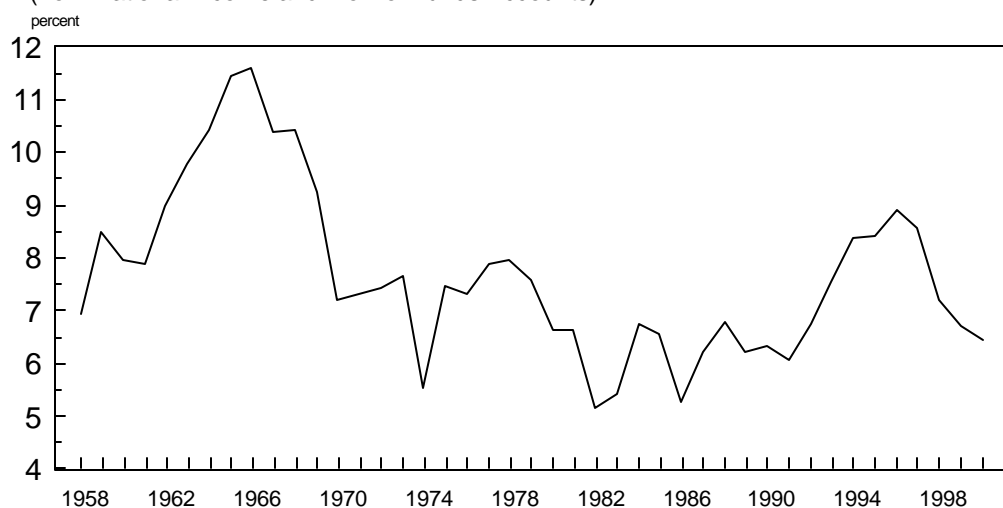
Figure 9



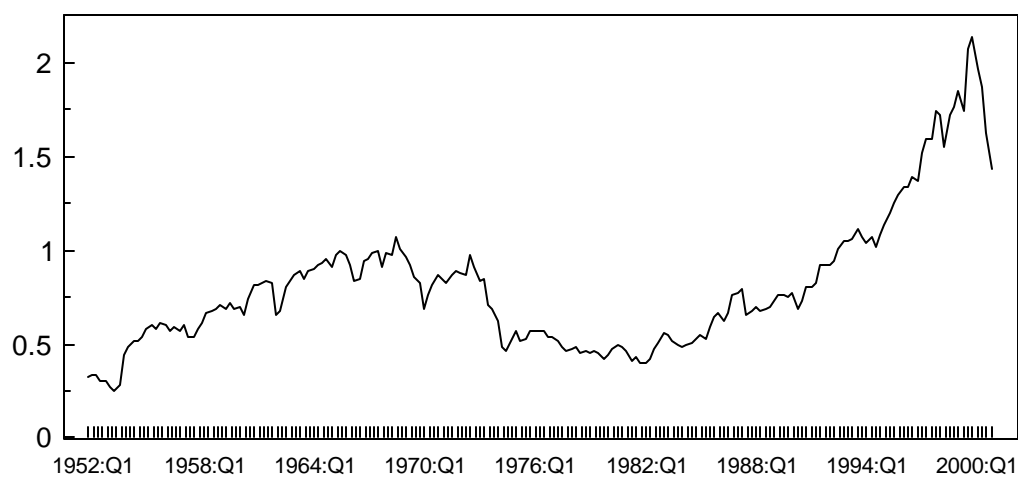
* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.
source: First Call, DRI, Bloomberg

Figure 10

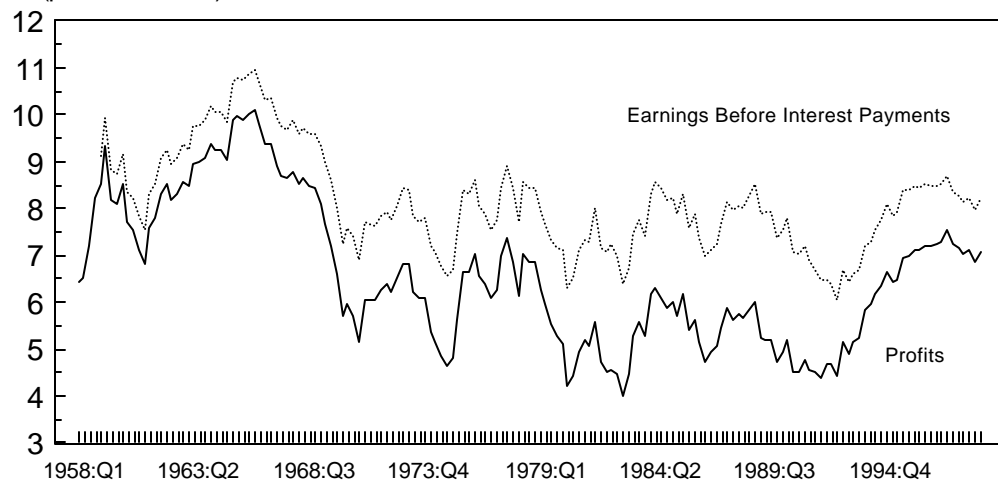
Real Rate of Return on Nonfinancial Corporate Equity (from National Income and Flow of Funds Accounts)



Tobin's Q*



Profits of Nonfinancial Corporations (percent of GDP)



* Market Value of Equity plus Net Interest Bearing Debt/ Current value of Land, Inventories, Equipment, and Structures